

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PHELPS GAS COMPANY'S FAILURE TO	)	
COMPLY WITH COMMISSION REGULATIONS	)	CASE NO.
AND DELINQUENT PURCHASED GAS ACCOUNT	)	9877
WITH COLUMBIA GAS OF KENTUCKY	)	

O R D E R

This proceeding was instituted on March 13, 1987, by an Order directing Phelps Gas Company ("Phelps") to appear and show cause why it should not be fined pursuant to KRS 278.990 for violations of KRS 278.230 and 807 KAR 5:022, Section 10. Phelps was also directed to demonstrate what action it intends to take to comply with the regulations and to explain what Phelps' intentions are concerning resolution of an arrearage in its purchased gas account with Columbia Gas of Kentucky ("Columbia"). On June 25-26, 1986, the Commission staff made a comprehensive safety inspection of Phelps' system, and a copy of the inspection report was mailed to Phelps on July 23, 1986, requiring a response before August 25, 1986. No response was received, and a reminder letter was sent January 8, 1987. In the inspection report, Phelps was cited for several instances of noncompliance with Commission regulations, including no corrosion control. It had been cited for this violation in 1984 and 1985 comprehensive safety inspections also.

On November 12, 1986, Columbia mailed to the Commission a copy of a letter to Phelps regarding a \$15,636 arrearage. Phelps'

response to a Commission request for additional information did not clarify the status of the arrearage.

On April 8, 1987, Phelps filed a response to the July 23, 1986, inspection report, stating that all instances of non-compliance had been corrected except for those regarding meter history cards and corrosion control. According to the response, new meter history cards will be available "as soon as possible," but there is not any money "to bring the corrosion control programs up to specifications." However, the response noted that 10 anodes have been ordered for a portion of the system which consists of unprotected, bare steel pipe.

During the April 9, 1987, hearing Mike Little, owner and operator of Phelps, testified that the meter history cards are now up-to-date,<sup>1</sup> but reiterated: "[T]here has been no corrosion done, no program."<sup>2</sup> He testified that his response to the inspection report was late because: "I hate to respond until I have done those things, got them where they ought to be."<sup>3</sup> Mr. Little promised in the future to respond to each inspection report and provide the status of corrections.

The Commission notes that more than 7 months elapsed before Mr. Little responded to the July 23, 1986, inspection report. A follow-up inspection on November 11, 1986, was conducted to

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<sup>1</sup> Transcript of Evidence ("T.E."), April 9, 1987, page 13.

<sup>2</sup> T.E., page 11.

<sup>3</sup> T.E., page 15.

determine any corrections to the noncompliances noted in the June 1986 inspection.

With Mr. Little's experience in the utility field, he should be familiar with Commission rules and regulations. No legitimate reason has been advanced for the lengthy delay in responding to the inspection report. Therefore, the Commission is of the opinion that a fine should be assessed against Phelps for failure to respond to a Commission Order.

With regard to corrosion control, the Commission will accept the order of 10 anodes as Phelps' first step towards implementing a corrosion control program in compliance with 807 KAR 5:022, Section 10. However, Phelps' should immediately submit a schedule of implementation which includes the total number of anodes to be purchased and over what period of time, the estimated cost of the anodes, how many miles of pipeline will be included in the corrosion control program, who will install the anodes, and the type of monitoring activities to be included in the program.

#### Arrearage to Columbia

A second aspect of this proceeding is Phelps' arrearage with Columbia, resulting from unpaid gas bills. The Commission initiated an investigation into this arrearage in order to mediate the negotiations between Phelps and Columbia for payment and to ensure a continued gas supply to the customers served by Phelps.

On April 2, 1987, Columbia filed a motion requesting that the Commission impose a surcharge to satisfy the arrearage or, in the alternative, authorize termination of service. Phelps opposed the surcharge, preferring that recovery be granted through general

rates, and on April 22, 1987, filed a rate case to that end.<sup>4</sup> The Attorney General ("AG") opposed Columbia's motion on the ground that a surcharge would constitute a rate increase and that adequate notice of such an increase had not been given.

The Commission finds that further investigation of this issue is necessary and will do so within the context of Case No. 9911. The Commission will consider as options within the rate case the actions which Columbia sought. Until the disposition of this matter, Phelps should treat Columbia as a priority creditor to contain the arrearage to no more than its present level and attempt to negotiate a satisfactory settlement of the arrearage.

After reviewing the record and being advised, the Commission is of the opinion and hereby finds that:

1. Phelps was directed to respond before August 25, 1986, to an inspection report dated July 23, 1986.

2. No response to the inspection report was filed until April 8, 1987, more than 7 months beyond the response time required.

3. Based upon that response and testimony, all violations cited in the report have been corrected except for corrosion control.

4. Phelps has ordered 10 anodes to be installed on a portion of its pipeline which is unprotected, bare steel pipe. This action should be considered only the first step towards

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<sup>4</sup> Case No. 9911, the Application of Phelps Gas Company for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure.

implementation of a corrosion control program in compliance with 807 KAR 5:022, Section 10. Within 30 days of the date of this Order, Phelps should file a report with the Commission describing how many anodes will be purchased over what period of time, the estimated cost of the anodes, how many miles of pipeline are included in the program, who will install the anodes and at what locations, and what monitoring activities are included.

5. The April 2, 1987, Motion by Columbia should be denied, and the actions sought by Columbia should be considered within the context of Case No. 9911.

6. Phelps has agreed to respond to inspection reports in a timely manner in the future.

7. Pursuant to KRS 278.990, Phelps should be assessed a fine of \$700 for its failure to respond to the July 23, 1986, inspection report in a timely manner.

8. Within 30 days of the date of this Order, Phelps should issue a check in the amount of \$700 payable to the State Treasurer and mail it to Ms. Leigh Hutchens, Public Service Commission, P. O. Box 615, Frankfort, Kentucky 40602.

IT IS THEREFORE ORDERED that:

1. Pursuant to KRS 278.990, Phelps shall be and hereby is assessed a fine in the amount of \$700 for its failure to comply with KRS 278.230.

2. The April 2, 1987, Motion by Columbia shall be and hereby is denied, and the actions sought by Columbia shall be considered within the context of Case No. 9911.

3. Phelps shall comply with the directions set forth in Finding Nos. 4, 6, and 8 as if the same were individually ordered.

Done at Frankfort, Kentucky, this 16th day of July, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Hennaw, Jr.  
Chairman

[Signature]  
Vice Chairman

[Signature]  
Commissioner

ATTEST:

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Executive Director